



COMMISSION NEWS

ARIZONA CORPORATION COMMISSION, 1200 W. WASHINGTON, PHOENIX, AZ 85007

TO: EDITORS, NEWS DIRECTORS
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INVESTOR ADVISORY: MORTGAGE COUNSELORS PUSHING RISKY PROMISSORY NOTES

PHOENIX – The Arizona Corporation Commission’s Securities Division is hearing complaints from people who invested in short-term, high-interest promissory notes based upon recommendations from the mortgage counselors who handled their mortgage refinancing. In these unrelated complaints, investors stated that they had not received any principal or interest payments on the notes.

Unlike anonymous phone solicitors, mortgage counselors possess a certain level of credibility by their mere position and diligent efforts to satisfy a customer’s refinancing needs. Customers may trust the counselor’s judgment and feel comfortable taking an investment recommendation from someone viewed as a financial “expert.” The mortgage counselor, however, may not be trained to sell securities and may not know or explain all the risks associated with investing in promissory notes.

Promissory notes are basically “IOUs.” A promissory note is a form of debt that a company may use to raise capital. Under the terms of the note, the investor agrees to “loan” money to the company for a set period of time. In return, the company promises to repay the investor’s money, with interest. Promissory notes, however, are only as good as the financial health of the company issuing them. Although promissory notes can be legitimate investments, they also can be highly risky and even fraudulent.

In a typical promissory note scheme, investors receive realistic-looking promissory note certificates complete with official, legal-sounding language and embossed seals. Such documents offer a false sense of security. The notes attract investors who are leery of the fluctuations in the stock market. For these investors, promissory notes appear to be a “secure” alternative offering an above-average return.

The Division is investigating the complaints and urges the public to be skeptical of any investment that offers guaranteed, above-market returns with a maturity of less than a year. The Commission recommends that before investing in promissory notes, investors should do their homework with respect to the person obligated to repay the investment. Also, potential investors should find out if the person selling the notes is properly registered to offer or sell securities.

To verify the registration status of securities salespersons, contact the Arizona Corporation Commission's Securities Division at 602-542-4242, toll free 1-877-811-3878 or through its website www.ccsd.cc.state.az.us. The Division's website also has helpful information on a variety of topics, including promissory notes, as well as links to prior Commission orders and news releases.

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